



Highlights of [GAO-10-423](#), a report to congressional committees

### Why GAO Did This Study

In October 2008, Congress passed the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PRO-IP Act), to improve the effectiveness of U.S. government efforts to protect intellectual property (IP) rights such as copyrights, patents, and trademarks. The act also directed GAO to provide information on the quantification of the impacts of counterfeit and pirated goods. GAO (1) examined existing research on the effects of counterfeiting and piracy on consumers, industries, government, and the U.S. economy; and (2) identified insights gained from efforts to quantify the effects of counterfeiting and piracy on the U.S. economy.

GAO interviewed officials and subject matter experts from U.S. government agencies, industry associations, nongovernmental organizations, and academic institutions, and reviewed literature and studies quantifying or discussing the economic impacts of counterfeiting and piracy on the U.S. economy, industry, government, and consumers. GAO is making no recommendations in this report.

## INTELLECTUAL PROPERTY

### Observations on Efforts to Quantify the Economic Effects of Counterfeit and Pirated Goods

#### What GAO Found

According to experts and literature GAO reviewed, counterfeiting and piracy have produced a wide range of effects on consumers, industry, government, and the economy as a whole, depending on the type of infringements involved and other factors. Consumers are particularly likely to experience negative effects when they purchase counterfeit products they believe are genuine, such as pharmaceuticals. Negative effects on U.S. industry may include lost sales, lost brand value, and reduced incentives to innovate; however, industry effects vary widely among sectors and companies. The U.S. government may lose tax revenue, incur IP enforcement expenses, and face risks of counterfeits entering supply chains with national security or civilian safety implications. The U.S. economy as a whole may grow more slowly because of reduced innovation and loss of trade revenue. Some experts and literature also identified some potential positive effects of counterfeiting and piracy. Some consumers may knowingly purchase counterfeits that are less expensive than the genuine goods and experience positive effects (consumer surplus), although the longer-term impact is unclear due to reduced incentives for research and development, among other factors.

Three widely cited U.S. government estimates of economic losses resulting from counterfeiting cannot be substantiated due to the absence of underlying studies. Generally, the illicit nature of counterfeiting and piracy makes estimating the economic impact of IP infringements extremely difficult, so assumptions must be used to offset the lack of data. Efforts to estimate losses involve assumptions such as the rate at which consumers would substitute counterfeit for legitimate products, which can have enormous impacts on the resulting estimates. Because of the significant differences in types of counterfeited and pirated goods and industries involved, no single method can be used to develop estimates. Each method has limitations, and most experts observed that it is difficult, if not impossible, to quantify the economy-wide impacts. Nonetheless, research in specific industries suggest that the problem is sizeable, which is of particular concern as many U.S. industries are leaders in the creation of intellectual property.

#### Negative Effects of Counterfeiting and Piracy, by Stakeholder

| Stakeholders    | Negative effects  |
|-----------------|---|
| Consumers       | Health and safety risks, low quality goods  |
| Industries      | Lost sales and brand value, increased IP protection costs   |
| U.S. government | Lost tax revenue, increased enforcement costs, and risks to supply chains with national security or safety implications |
| U.S. economy    | Lower growth and innovation, declining trade with countries having weak IP rights enforcement                           |

Source: GAO analysis.

[View GAO-10-423](#) or [key components](#). For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).